



STATE of MINNESOTA  
*Office of Governor Mark Dayton*

**EMBARGOED UNTIL DELIVERY**

January 22, 2013

**Governor Dayton's Budget Presentation Remarks**  
*As Prepared For Delivery*

My proposed 14/15 Biennial Budget provides what Minnesotans want and deserve from their government: honest accounting, responsible management, and wise investments for a better state, now and in the future. It ends the fiscal games, accounting gimmicks, payment delays, and other financial manipulations of the last ten years. It eliminates the \$1.1 billion deficit; then balances the rest of state government's spending and revenues during the next two years.

Let's start with spending cuts. This budget extends some program cuts made in 2011, and saves money through tougher contracting with HMOs and streamlining and modernizing state government's administrative functions, as we've done with Information Technology Services.

As a result, my proposed budget spends almost \$1.8 billion less in the next biennium, than was forecasted when the previous administration departed.

In addition, I am proposing new investments in education and jobs, which I believe are essential to creating a better Minnesota for our citizens.

We know that education is absolutely crucial to better job opportunities, higher incomes, and more fulfilling lives for Minnesotans today and for their children and grandchildren in the future, yet we have consistently cut state funding for higher education and K-12 over the last ten years.

We need to put our money where our beliefs are, and where we know we can get results.

My budget proposes to increase higher education funding by \$240 million in the next biennium. These investments will prevent tuition increases, support research and innovation, and align higher education coursework and classrooms with the jobs of the future. It also includes a 25% increase in state student aid to help middle class families afford higher education. Like higher education, funding in real dollars for K-12 education has declined in the last ten years. My proposals would increase state support for K-12 education by \$300 million in the next biennium.

I made a commitment to increase state support every year I'm Governor. No Excuses, No Exceptions. My FY14/15 budget keeps that promise.

This budget would increase the basic formula, invest in optional, all-day kindergarten for all Minnesota's children, and increase state support for special education.

Some people will say that we cannot afford to make these additional investments to improve our public education. I say that we cannot afford NOT to make them. A well-educated, productive workforce has been, and continues to be, our key advantage in attracting new and expanding businesses. If we short-change our kids' educations, we short-change their futures . . . and ours.

There is also growing consensus about the critical need for more and better early childhood education opportunities, especially for potentially "at-risk" children.

In this budget, I am proposing an additional \$92 million in support for early learning, including early learning scholarships and other help for families to afford high quality child-care.

Better education is closely linked to better jobs; but we must do more. The competition among states for business start-ups and expansions is even more intense today than when I served as Commissioner of Economic Development, thirty years ago.

My budget proposes a total of \$100 million to expand job creation, including support for the Minnesota Investment Fund, as well as a revised JOBZ program, to be called the Minnesota Job Creation Fund.

If those investments are made, they will yield multiple returns in new jobs, private investments, vibrant communities, and additional state and local tax revenues; and they will help keep our economy moving forward.

Those new commitments for more jobs, better educations, and healthier citizens and communities total \$732 million for the 14/15 biennium.

They represent my best judgment about what Minnesota needs to grow our economy, expand our middle-class, improve our quality of life, and take care of those most in need.

Some will say we spend too much in this budget, and some will say we don't spend enough. To those who claim this spending is too high, I challenge you to say exactly where more cuts should be made. And to those who say we need to spend more, I challenge you to say exactly where the money should come from.

The other big question before us is how to pay for these investments; erase a \$1.1 billion dollar deficit, without borrowing, shifts, and other gimmicks; and make our tax system fairer, especially for hard-working, middle-income Minnesota families.

I expect that significant tax reform will be very difficult to achieve in this legislative session. My proposal starts with two strikes against it. First, it will face powerful opposition from many of those individuals and businesses, who benefit under the existing system. Second, it carries the added burden of making up a one billion dollar deficit.

However, tax reform has strong support from an ever-increasing number of Minnesotans, who believe the current system is unfair to them. Most of them are right. The last "Tax Incidence Study" by the Minnesota Department of Revenue found that middle-income families paid about 12.3% of their incomes in all state and local taxes, while the wealthiest two percent paid 9.7%.

Thus, middle-income Minnesota taxpayers paid one-fourth more of their incomes in state and local taxes than did our very wealthiest citizens. That is unfair.

In my budget, I am asking Minnesota's highest earners to pay more of their fair share, by adding a new fourth income tax bracket of an additional 2% on the wealthiest 2%. This new 4th tier would apply only to married couples earning more than \$250,000 in taxable income, and to single people who earn more than \$150,000 in taxable income. The income taxes paid by the other 98% of Minnesotans would remain unchanged.

Let me repeat that: My proposal does not raise income taxes on 98% of Minnesota citizens.

My sales tax reform would broaden its base, long-recommended to improve both revenue stability and fairness. The sales tax would be applied to purchases of many goods and services, which are now exempt. However, food, prescription medicine, and clothing items costing less than \$100 would continue to be exempt, as would medical and burial services.

This base expansion would be accompanied by a reduction in the state sales tax rate to 5.5% for all taxable purchases. That would be a rate reduction of 20%, the largest in Minnesota's history; and it would drop us from 7th highest to 27th among the states.

According to the Department of Revenue's analysis, the total amount of sales taxes paid by typical consumers in Minnesota would remain about the same with this combination of broadening its base and lowering its rate.

The property tax is the most unfair of all state and local taxes, for it must be paid regardless of homeowners' incomes or whether businesses and farms are profitable.

Yet Minnesota's overall reliance on property taxes has increased by a staggering 86% during the past decade.

This growing property tax burden is irresponsible and must be reversed. I propose that every homeowner, including farmers, would receive from the State of Minnesota a rebate for the first \$500 of property taxes paid in 2013, and every year going forward. My budget also fully funds the renters property tax credit.

The result of these changes in the income tax, sales tax, and property tax, would be to reduce the total state and local taxes paid by most Minnesotans.

Married couples with taxable incomes below \$250,000, would pay the same in income taxes, also pay about the same in sales taxes, and receive a property tax rebate from the state of up to \$500. That is a \$500 per year tax cut for most middle-income Minnesota families.

Individual taxpayers with taxable incomes below \$150,000 would also receive annual tax cuts of up to \$500. 98% of Minnesotans would not pay higher taxes under my plan; and many would pay less, thanks to the \$500 property tax rebate.

Under my proposal, Minnesota businesses would receive both temporary and permanent property tax relief, as well as a reduction in the state corporate income tax rate from 9.8% to 8.4%.

That is a 14% reduction, and Minnesota's corporate tax rate would drop from 4th highest among the states to 12th.

Businesses would join consumers in paying the new lower sales tax rate on a broader base of taxed goods and services. Some business executives maintain that business purchases of services from other businesses should be exempt. However, if a Minnesota company today buys taxable goods, such as new carpeting or computers, it pays the same sales tax rate as does a middle-income family. Why, then, should a business not also pay sales taxes, as families would, on purchases of services, like legal or accounting? Basic fairness says they should be treated the same, and under my plan they are.

When I became Governor two years ago, Minnesota's state government faced a projected deficit of over \$6 billion for the next biennium.

During much of the previous decade, governors and legislatures spent more than they raised and filled the gaps with shifts, borrowing, and other one-time gimmicks, rather than facing and fixing their problems.

In my first biennial budget, I proposed a balanced approach of spending cuts, new revenues, and more efficient government, which would have eliminated the projected deficits for both the current and upcoming bienniums. The final compromise, as you know, included a mixture of cuts, shifts, borrowing, and other one-time measures. The results included a lowering of the state's credit rating and a remaining \$1.1 billion deficit for the next biennium.

The budget I am proposing today will end those games and gimmicks; and replace them with honest accounting and responsible financial management. It invests in jobs and education that will expand the middle class and strengthen our economy.

It leads the way toward a better Minnesota.